



# Plans 1 COLAs

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*July 20, 2021*

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## Today's Presentation

- Brief Committee History
- History of Plans 1 COLAs
- Current Plans 1 COLAs
- Purchasing Power Analysis
- Policy Considerations
- Design and Implementation Options
- Next Steps

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## Brief Committee History

- SCPP has studied COLAs periodically since 2003
- SCPP COLAs request legislation enacted in 2018 and 2020
- Stakeholder correspondence shared at June 2021 SCPP meeting
- Executive Committee added to July 2021 meeting agenda

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## History of Plans 1 COLAs

- Minimum benefits
- UCOLA (1995-2011)
  - Dollar amount per month per year of service
  - Enacted in 1995, repealed during 2011 Session
  - Beneficiaries last received July 2010
  - Repeal included one-time increase in Alternate Minimum Benefit
- Ad hoc one-time COLAs
  - 2018 1.5% COLA capped at \$62.50 for all retirees not receiving a minimum benefit
  - 2020 3% COLA capped at \$62.50 for all retirees not receiving a minimum benefit

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## Current Plans 1 COLAs

- Optional COLA—Purchase Plans 2 inflation protection by receiving an actuarially reduced benefit
- Basic Minimum Benefit—Dollar amount per month per year of service
  - \$67.49 as of July 2021
- Alternate Minimum Benefits
  - \$2,076.34 per month as of July 2021

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## Beneficiary Profile Highlights

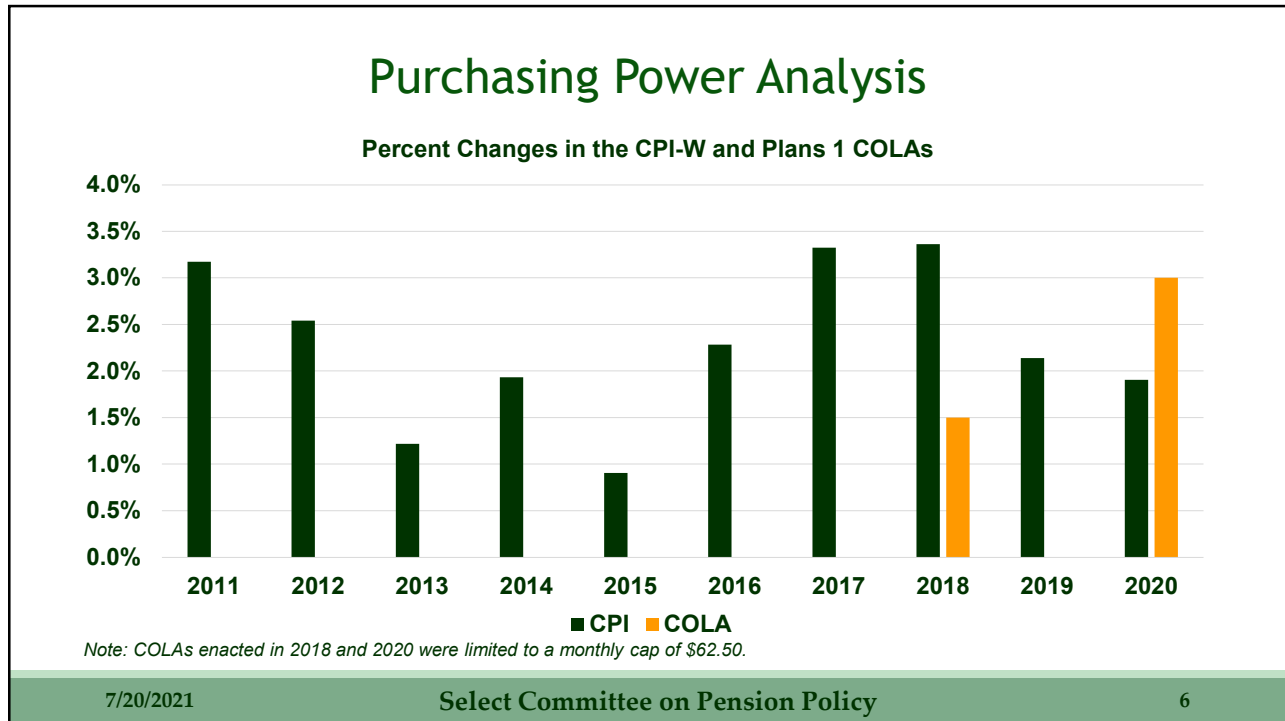
Averages as of 6/30/2019—PERS/TRS 1					
Benefit Group	Estimated Count	Average Final Comp.	Membership Service	Pension Benefit	Years Retired
No Minimum Benefit	61,400	\$59,100	27	\$29,500	17
Basic Minimum	11,800	\$21,700	18	\$12,600	19
Alternate Minimum	5,000	\$26,800	25	\$20,500	30

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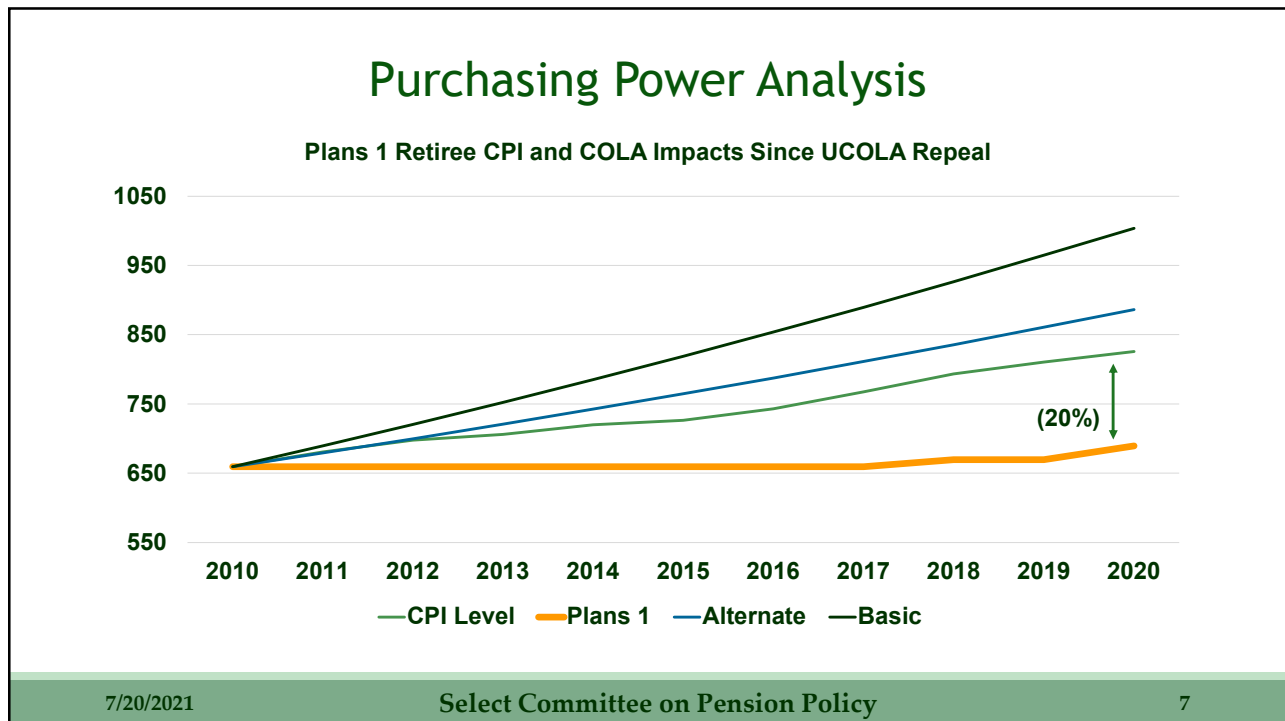
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## Key Takeaways

- 79% of retirees do not receive a COLA under Plans 1
- Purchasing power of retirees has not kept pace with CPI changes over the last 10 years—loss of about 20% since the UCOLA repeal
- Higher proportion of retirees in Plans 1 will become eligible under the minimums in the absence of ad hoc or permanent COLAs
- Retirees receiving an annual increase under the minimums are generally higher than observed CPI increases

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## Sample Costs for COLA Proposals

- Permanent COLA identical to the Plans 2/3 COLA (2020)
  - \$7.6 billion
- Ad hoc 3% COLA to all annuitants (2018)
  - 589 million
- Providing a \$2 monthly increase/service year for all annuitants (2017)
  - 497 million
- Ad hoc COLAs ranging from 1.5% to 3% with specific caps to all annuitants not receiving minimum benefits (3% enacted in 2020)
  - 144 million to 381 million

*Note: All costs are 10-year total employer costs, rounded and were based on published fiscal notes for proposed legislation in the specified year.*

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## Policy Considerations

COLA Policy	Benefit Adequacy	Purchasing Power Protection	Fiscal Constraints
<ul style="list-style-type: none"> <li>Implemented with Plans 2 since the late 70s, but not for Plans 1 (UAAL)</li> <li>Balance cost management while providing some inflation protection</li> </ul>	<ul style="list-style-type: none"> <li>How well a benefit can provide an expected standard of living</li> <li>What is adequate to one may not be to another</li> </ul>	<ul style="list-style-type: none"> <li>How the value of the benefit holds up over time</li> </ul>	<ul style="list-style-type: none"> <li>Employer affordability and impact on UAAL</li> </ul>

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## Policy Considerations

### ■ SCPP Goal #4

- “To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.”

### ■ SCPP Goal #5

“To be consistent with the goals outlined in the [RCW 41.45.010](#) . . .

- (C) to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
- (D) to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; . . .”

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## Policy Implications of Providing COLAs

- COLAs provide a way to maintain purchasing power in retirement, however if COLAs are not part of the retirement Plan's design, then providing COLAs later comes with fiscal implications
- COLAs can be tailored to
  - Meet certain policy objectives
  - Target specific annuitants
- Consider trade-offs
  - Smaller amount to a larger number of annuitants
  - Larger amount to a smaller number of annuitants

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## Design and Implementation Options

<b>Design</b>	Consumer Price Index
	Years of Service
	Minimum Benefit
	Purchasing Power
	Funding Status
<b>Implementation</b>	Flat Dollar Amount Increase
	One-Time Payment, Like a 13th Payment
	One-Time % Ad Hoc COLA
	Automatic COLA

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## Key Questions for the Committee

- Does the Committee want to begin working toward a COLA proposal for consideration in the 2022 Legislative Session?
- If so, how would you like to proceed?
  - Revisit a prior COLA proposal
  - Develop a new COLA proposal (staff could work with stakeholders)
  - Study a COLA proposal brought by stakeholders

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## Next Steps

- Possible Committee discussion
- Executive Committee may
  - Provide direction to staff on what policy option(s) to bring back
  - Review the work plan and pencil in additional briefings later this interim
- Executive Committee may determine no further action

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## Thank You

The Select Committee on Pension Policy is staffed by the Office of the State Actuary.

Questions? Contact us:

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## Appendix—History of COLAs

### UCOLA (1995-2011)

- Dollar amount per month per year of service
- Enacted in 1995, repealed during 2011 Session
- Beneficiaries last received July 2010
- Repeal included one-time increase in Alternate Minimum Benefit

### Ad hoc COLA (Primarily Before 1995)

- One-time increase in pension benefits at legislative discretion
- Typically 3%

### Gain Sharing (1998-2008)

- Provided even-year enhancements to UCOLA Annual Increase based on half the compound average returns in Plans 1 assets over the previous four fiscal years in excess of 10%
- Upon repeal, one-time increase to UCOLA Annual Increase of \$0.40

### Plans 1 COLA/Age 65 COLA (1989-1995)

- Provided lesser of CPI or 3% whenever benefit fell below 60% purchasing power

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## Appendix—Resources

- OSA COLAs Information [webpage](#)
- DRS COLAs [webpage](#)
- Recent SCPP history
  - [2019 Plans 1 COLA Executive Summary](#)
  - [2018 3 Percent Ad-Hoc COLA for Plans 1 Executive Summary](#)
  - [2017 Plans 1 COLA Executive Summary](#)
  - [2016 Plans 1 COLA Executive Summary](#)